

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Macomb</u>	County Macomb
Audit Date June 30, 2005	Opinion Date October 13, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address Suite 200, 10 S. Main Street	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature 			

**Township of Macomb
Macomb County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2005**

Township of Macomb

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Independent Auditor's Report

To the Board of Trustees
Township of Macomb
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Macomb as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Macomb's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Macomb as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress (as identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees
Township of Macomb
Macomb County, Michigan

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Macomb's basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 13, 2005

Township of Macomb

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township of Macomb (the "Township") on a government-wide basis. They are designed to present a longer-term view of the Township's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2005 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 40.5	\$ 38.7	\$ 48.2	\$ 45.2	\$ 88.7	\$ 83.9
Noncurrent assets:						
Restricted assets	3.7	9.2	6.7	7.0	10.4	16.2
Capital assets	<u>39.5</u>	<u>34.7</u>	<u>144.3</u>	<u>130.0</u>	<u>183.8</u>	<u>164.7</u>
Total assets	83.7	82.6	199.2	182.2	282.9	264.8
Liabilities						
Current liabilities	3.2	3.7	3.0	2.5	6.2	6.2
Long-term liabilities	<u>30.6</u>	<u>31.1</u>	<u>12.1</u>	<u>12.8</u>	<u>42.7</u>	<u>43.9</u>
Total liabilities	<u>33.8</u>	<u>34.8</u>	<u>15.1</u>	<u>15.3</u>	<u>48.9</u>	<u>50.1</u>
Net Assets						
Invested in capital assets -						
Net of related debt	11.9	12.4	137.8	122.8	149.7	135.2
Restricted	8.3	6.8	0.5	0.5	8.8	7.3
Unrestricted	<u>29.7</u>	<u>28.6</u>	<u>45.8</u>	<u>43.6</u>	<u>75.5</u>	<u>72.2</u>
Total net assets	<u>\$ 49.9</u>	<u>\$ 47.8</u>	<u>\$ 184.1</u>	<u>\$ 166.9</u>	<u>\$ 234.0</u>	<u>\$ 214.7</u>

The Township's combined net assets increased 9.0 percent from a year ago, increasing from \$214.7 million to \$234.0 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$2.1 million in net assets, or 4.4 percent, during fiscal year 2005. The increase in total net assets is attributable to an excess of revenue over controlled expenditures. The business-type activities experienced a 6.3 percent increase in net assets as well. This was primarily due to contributions of water and sewer lines by developers and the continued growth in the customer base.

Township of Macomb

Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities were \$29.7 million at June 30, 2005. This amount represents the part of net assets that is available to finance day-to-day operations and future growth of the Township.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2005 and the prior year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 3.5	\$ 2.8	\$ 13.3	\$ 11.5	\$ 16.8	\$ 14.3
Operating grants and contributions	0.1	0.1	-	-	0.1	0.1
Capital grants and contributions	-	-	20.7	6.4	20.7	6.4
General revenue:						
Property taxes	9.4	8.6	-	-	9.4	8.6
State-shared revenue	3.6	3.6	-	-	3.6	3.6
Interest	0.7	0.6	0.8	0.5	1.5	1.1
Gain on sale of capital assets	0.4	-	-	-	0.4	-
Cable fees and other	0.7	0.6	-	-	0.7	0.6
Total revenue	18.4	16.3	34.8	18.4	53.2	34.7
Program Expenses						
General government	4.3	3.5	-	-	4.3	3.5
Public safety	7.4	6.3	-	-	7.4	6.3
Public works	0.8	0.6	-	-	0.8	0.6
Recreation and culture	2.4	1.2	-	-	2.4	1.2
Interest on long-term debt	1.4	1.3	-	-	1.4	1.3
Water and sewer	-	-	16.2	14.3	16.2	14.3
Total program expenses	16.3	12.9	16.2	14.3	32.5	27.2
Change in Net Assets	2.1	3.4	18.7	4.1	20.8	7.5
Net Assets - Beginning of year - As restated	47.8	44.4	165.5	162.8	213.3	207.2
Net Assets - End of year	<u>\$ 49.9</u>	<u>\$ 47.8</u>	<u>\$ 184.1</u>	<u>\$ 166.9</u>	<u>\$ 234.0</u>	<u>\$ 214.7</u>

Township of Macomb

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenues increased by approximately \$2.1 million from the last fiscal year. This was primarily attributed to the increase in charges for services for the Recreation Center. The Recreation Center opened in July 2004 and brought in additional types of revenue for the Park and Recreation Fund. An increase in total governmental revenues was achieved despite decreases in state-shared revenue and the declining license and permit fees throughout the year.

Expenses increased by about \$3.4 million, or 26.4 percent, over last fiscal year. This increase resulted from the continued growth of Macomb Township and the various needs of the community. Additionally, the Park and Recreation Fund recognized a 100 percent expense increase due to operations of the new Recreation Center.

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund. Revenues of the Township's business-type activities increased 89.1 percent to \$34.8 million. Revenues of the Township's business-type activity increased by \$16.4 million primarily as a result in the addition of water and sewer lines contributed by developers during the year ended June 30, 2005.

Expenses increased 13.3 percent to \$16.2 million for the year ended June 30, 2005. The increase in expenses is primarily attributable to continued growth of the water and sewer system and increases in the cost of water and sewer purchases. The Township provides water, which is purchased from the City of Detroit Water System, to nearly all its residents. A significant factor to the increased expenses was an 18.8 percent increase in the cost of water from the City of Detroit Water System. The Township did not pass the same percentage increase along to its residents. The Township also provides sewage treatment to nearly all of its residents through the Macomb County sewage treatment plant.

The Township's Funds

Our analysis of the Township's major funds begins on pages 11 and 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as show accountability for certain activities. The Township's major funds for 2005 include the General Fund, Parks and Recreation Operating Fund, Fire Operating Fund, Law Enforcement Sheriff Fund, Municipal Street Fund, Building Authority Debt Service Fund, and Building Authority Capital Projects Fund.

Township of Macomb

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township administration and Township Board monitor and amend the budget to take into account unanticipated events that occur during the year. The most significant of these events during fiscal year 2005 were the decreases in anticipated state-shared revenues and interest income. These revenues decreased due to the downturn in the economy and state cutbacks during 2004 and 2005. Even with those issues, the Township still completed the year with an increase in total revenue over the budgeted amount of \$1.2 million and a decrease of total expenses over the budgeted amount of \$1.6 million.

Capital Assets and Debt Administration

At the end of fiscal year 2005, the Township had \$217 million invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, and water and sewer lines. In addition, the Township is reporting infrastructure assets, which include roads and bridges in which it has invested since 1980. The value of the infrastructure assets, net of depreciation contained in this report, is \$4.0 million and \$2.8 million for fiscal years 2005 and 2004, respectively (see Note 3 of the notes to the basic financial statements for additional information). Additionally, the value of buildings and improvements, net of depreciation, for the governmental activities is \$27.2 million and \$26.7 million for fiscal years 2005 and 2004, respectively.

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and improvements assets and is reported as a liability on the statement of net assets (see Note 5 of the notes to the basic financial statements for additional information).

Economic Factors and Next Year's Budgets and Rates

Macomb Township continues to reduce its property tax millage rate in 2005. Strong expenditure controls and past growth in the Township's tax base have helped to accomplish this planned millage rate reduction. Property taxes make up nearly 21.1 percent of the General Fund budget. Annual new growth and development in the Township have fallen 36.6 percent in the past year and are expected to remain stable for the next few years. In addition, state revenue sharing, which represents nearly 37.6 percent of the General Fund budget, is unlikely to increase due to State cutbacks and less sales tax receipts at the State level.

On the expense side, the Township continues to operate with relatively low personnel costs and an efficient labor force. While our pension system is fully funded, we do anticipate further increases in pension fund contributions due to the declining stock and bond markets. We also expect continued annual increases in medical costs of nearly 5 percent to 10 percent per year. Despite these increased costs, our expense increases are anticipated to average between 4 percent and 8 percent per year. We will adjust expenses to mirror the revenue base, ensuring the continuation of the trend of excess revenues over expenses established over nine years ago.

Township of Macomb

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Macomb Township finance office.

Township of Macomb

Statement of Net Assets June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 39,101,927	\$ 44,178,084	\$ 83,280,011	\$ 652
Receivables:				
Customers	48,539	3,292,615	3,341,154	-
Special assessments - Current	-	15,185	15,185	-
Due from other governmental units	1,449,408	-	1,449,408	-
Inventories	-	723,779	723,779	-
Restricted assets (Note 6)	3,699,053	6,700,535	10,399,588	-
Capital assets not being depreciated (Note 3)	5,648,178	3,322,876	8,971,054	-
Capital assets being depreciated (Note 3)	33,806,883	141,020,877	174,827,760	-
Total assets	83,753,988	199,253,951	283,007,939	652
Liabilities				
Accounts payable	1,385,063	2,196,034	3,581,097	-
Accrued and other liabilities	746,810	39,359	786,169	-
Current liabilities payable from restricted assets	-	135,000	135,000	-
Noncurrent liabilities (Note 5):				
Due within one year	1,078,649	620,523	1,699,172	-
Due in more than one year	30,615,470	12,128,753	42,744,223	-
Total liabilities	33,825,992	15,119,669	48,945,661	-
Net Assets				
Invested in capital assets - Net of related debt	11,876,717	137,853,882	149,730,599	-
Restricted:				
Parks and Recreation Operating Fund	2,566,163	-	2,566,163	-
Fire Operating Fund	5,370,531	-	5,370,531	-
Law enforcement sheriff	289,634	-	289,634	-
Debt service	131,221	510,406	641,627	-
Unrestricted	29,693,730	45,769,994	75,463,724	652
Total net assets	<u>\$ 49,927,996</u>	<u>\$ 184,134,282</u>	<u>\$ 234,062,278</u>	<u>\$ 652</u>

Township of Macomb

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,251,176	\$ 105,162	\$ 90,922	\$ -
Public safety	7,445,662	1,553,430	15,540	-
Public works	784,609	499,893	-	-
Recreation and culture	2,421,385	1,323,863	-	-
Interest on long-term debt	1,401,584	-	-	-
Total governmental activities	\$ 16,304,416	\$ 3,482,348	\$ 106,462	\$ -
Business-type activities - Water and sewer	16,169,636	13,262,022	-	20,750,347
Total primary government	<u><u>\$ 32,474,052</u></u>	<u><u>\$ 16,744,370</u></u>	<u><u>\$ 106,462</u></u>	<u><u>\$ 20,750,347</u></u>
Component unit - Economic Development Corporation	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Gain on sale of capital assets				
Cable fees and other				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year -				
As restated (Note 3)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (4,055,092)	\$ -	\$ (4,055,092)	\$ -
(5,876,692)	-	(5,876,692)	-
(284,716)	-	(284,716)	-
(1,097,522)	-	(1,097,522)	-
(1,401,584)	-	(1,401,584)	-
(12,715,606)	-	(12,715,606)	-
-	17,842,733	17,842,733	-
(12,715,606)	17,842,733	5,127,127	-
-	-	-	-
9,449,736	-	9,449,736	-
3,555,624	-	3,555,624	-
662,140	791,453	1,453,593	-
428,121	-	428,121	-
763,134	13,058	776,192	-
14,858,755	804,511	15,663,266	-
2,143,149	18,647,244	20,790,393	-
47,784,847	165,487,038	213,271,885	652
\$ 49,927,996	\$ 184,134,282	\$ 234,062,278	\$ 652

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff
Assets				
Cash and investments (Note 2)	\$ 21,799,895	\$ 3,071,597	\$ 5,336,124	\$ 499,578
Receivables - Net	851,960	-	2,985	-
Due from other funds (Note 4)	39,434	-	-	-
Restricted assets (Note 6)	-	-	-	-
Total assets	\$ 22,691,289	\$ 3,071,597	\$ 5,339,109	\$ 499,578
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 465,332	\$ 114,100	\$ 59,576	\$ 209,944
Accrued and other liabilities	103,804	20,403	71,981	-
Due to other funds	-	-	-	-
Total liabilities	569,136	134,503	131,557	209,944
Fund Balances				
Reserved for - Building Authority				
Capital Projects	-	-	-	-
Unreserved:				
General Fund	22,122,153	-	-	-
Special Revenue Funds	-	2,937,094	5,207,552	289,634
Capital Projects Funds	-	-	-	-
Designated - Debt Service Funds	-	-	-	-
Total fund balances	22,122,153	2,937,094	5,207,552	289,634
Total liabilities and fund balances	\$ 22,691,289	\$ 3,071,597	\$ 5,339,109	\$ 499,578

**Governmental Funds
Balance Sheet
June 30, 2005**

Building Authority Debt Service	Building Authority Capital Projects	Municipal Street	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,457	\$ 85,278	\$ 1,922,810	\$ 6,384,188	\$ 39,101,927
-	-	-	-	854,945
-	-	-	-	39,434
-	3,699,053	-	-	3,699,053
<u>\$ 2,457</u>	<u>\$ 3,784,331</u>	<u>\$ 1,922,810</u>	<u>\$ 6,384,188</u>	<u>\$ 43,695,359</u>
\$ -	\$ 526,399	\$ 9,712	\$ -	\$ 1,385,063
-	-	550,622	-	746,810
-	-	-	39,434	39,434
-	526,399	560,334	39,434	2,171,307
-	3,257,932	-	-	3,257,932
-	-	-	-	22,122,153
-	-	-	3,188,185	11,622,465
-	-	1,362,476	3,027,805	4,390,281
2,457	-	-	128,764	131,221
<u>2,457</u>	<u>3,257,932</u>	<u>1,362,476</u>	<u>6,344,754</u>	<u>41,524,052</u>
<u>\$ 2,457</u>	<u>\$ 3,784,331</u>	<u>\$ 1,922,810</u>	<u>\$ 6,384,188</u>	<u>\$ 43,695,359</u>

Township of Macomb

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2005

Fund Balances - Total Governmental Funds	\$ 41,524,052
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures; in the statement of net assets, these costs are allocated over their estimated useful lives as depreciation	39,455,061
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Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures	643,002
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(31,694,119)</u>
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Net Assets of Governmental Activities	<u>\$ 49,927,996</u>
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Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff
Revenue				
Property taxes and fees	\$ 1,837,465	\$ 2,216,987	\$ 3,133,516	\$ 2,261,768
Licenses and permits	1,887,038	-	-	-
Federal grants	10,691	-	-	-
State-shared revenues and grants	3,596,226	-	1,851	15,540
Charges for services	422,690	1,350,766	-	-
Fines and forfeitures	175,493	-	-	-
Special assessment	501,336	-	-	-
Interest	316,966	39,251	68,742	12,367
Other	678,247	-	5,680	-
Total revenue	9,426,152	3,607,004	3,209,789	2,289,675
Expenditures				
Current:				
General government	2,729,676	-	-	-
Public safety	2,254,113	-	1,928,928	2,515,671
Public works	784,609	-	-	-
Recreation and culture	221,255	1,943,599	-	-
Employee benefits and insurance	1,294,946	-	-	-
Capital outlay	-	-	-	-
Debt service	-	47,019	-	-
Total expenditures	7,284,599	1,990,618	1,928,928	2,515,671
Excess of Revenue Over (Under) Expenditures	2,141,553	1,616,386	1,280,861	(225,996)
Other Financing Sources (Uses)				
Transfers in (Note 4)	60,206	-	-	-
Transfers out (Note 4)	(522,750)	(1,331,825)	-	-
Bond proceeds	-	-	-	-
Bond payment to escrow	-	-	-	-
Bond issuance cost	-	-	-	-
Bond premium	-	-	-	-
Total other financing sources (uses)	(462,544)	(1,331,825)	-	-
Net Change in Fund Balances	1,679,009	284,561	1,280,861	(225,996)
Fund Balances - Beginning of year	20,443,144	2,652,533	3,926,691	515,630
Fund Balances - End of year	<u>\$ 22,122,153</u>	<u>\$ 2,937,094</u>	<u>\$ 5,207,552</u>	<u>\$ 289,634</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005

Building Authority Debt Service	Building Authority Capital Projects	Municipal Street	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 9,449,736
-	-	-	-	1,887,038
-	-	-	-	10,691
-	-	-	-	3,613,617
-	-	-	8,400	1,781,856
-	-	-	-	175,493
-	-	-	9,574	510,910
1,248	85,278	31,283	107,005	662,140
-	-	-	-	683,927
1,248	85,278	31,283	124,979	18,775,408
-	-	-	257,611	2,987,287
-	-	-	-	6,698,712
-	-	-	-	784,609
-	-	-	-	2,164,854
-	-	-	-	1,294,946
-	4,123,987	1,295,755	-	5,419,742
2,123,497	-	-	39,431	2,209,947
2,123,497	4,123,987	1,295,755	297,042	21,560,097
(2,122,249)	(4,038,709)	(1,264,472)	(172,063)	(2,784,689)
2,121,575	-	-	84,000	2,265,781
-	-	-	(411,206)	(2,265,781)
9,800,000	-	-	-	9,800,000
(9,719,395)	-	-	-	(9,719,395)
(179,924)	-	-	-	(179,924)
99,319	-	-	-	99,319
2,121,575	-	-	(327,206)	-
(674)	(4,038,709)	(1,264,472)	(499,269)	(2,784,689)
3,131	7,296,641	2,626,948	6,844,023	44,308,741
<u>\$ 2,457</u>	<u>\$ 3,257,932</u>	<u>\$ 1,362,476</u>	<u>\$ 6,344,754</u>	<u>\$ 41,524,052</u>

Township of Macomb

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ (2,784,689)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 4,735,077

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (11,017)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection 37,778

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 233,363

Accumulated employee sick and vacation pay is recorded when earned in the statement of activities (67,363)

Change in Net Assets of Governmental Activities **\$ 2,143,149**

Township of Macomb

Proprietary Fund Statement of Net Assets June 30, 2005

	Enterprise - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 44,178,084
Receivables:	
Customers	3,292,615
Special assessments	15,185
Inventories	723,779
Total current assets	48,209,663
Noncurrent assets:	
Restricted assets (Note 6)	6,700,535
Capital assets not being depreciated (Note 3)	3,322,876
Capital assets being depreciated (Note 3)	141,020,877
Total noncurrent assets	151,044,288
Total assets	199,253,951
Liabilities	
Current liabilities:	
Accounts payable	2,196,034
Accrued and other liabilities	119,882
Current liabilities payable from restricted assets (Note 6)	135,000
Current portion of long-term debt (Note 5)	540,000
Total current liabilities	2,990,916
Noncurrent liabilities:	
Provision for compensated absences (Note 5)	123,753
Long-term debt - Net of current portion (Note 5)	12,005,000
Total noncurrent liabilities	12,128,753
Total liabilities	15,119,669
Net Assets	
Investment in capital assets - Net of related debt	137,853,882
Restricted for debt service	510,406
Unrestricted	45,769,994
Total net assets	\$ 184,134,282

Township of Macomb

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise - Water and Sewer
Operating Revenue	
Sale of water	\$ 6,037,279
Sewage disposal charges	5,337,205
Charges for services	1,887,538
Total operating revenue	13,262,022
Operating Expenses	
Cost of water	4,932,500
Cost of sewage disposal	3,983,891
Operation and maintenance	1,055,532
General and administrative	2,325,676
Depreciation	3,064,641
Total operating expenses	15,362,240
Operating Loss	(2,100,218)
Nonoperating Revenue (Expense)	
Investment income	791,453
Interest expense	(807,396)
Other revenue	13,058
Loss - Before contributions	(2,103,103)
Capital Contributions	
Developers	17,732,967
Tap fees and frontage charges	3,017,380
Total capital contributions	20,750,347
Change in Net Assets	18,647,244
Net Assets - Beginning of year - As restated (Note 3)	165,487,038
Net Assets - End of year	\$ 184,134,282

Township of Macomb

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 12,448,968
Payments to suppliers	(10,338,468)
Payments to employees	(1,442,969)
Internal activity - Payments to other funds	(61,340)
Net cash provided by operating activities	606,191
Cash Flows from Capital and Related Financing Activities	
Receipt of capital contributions	3,017,380
Purchase of capital assets	(1,075,454)
Principal and interest paid on long-term debt	(1,559,896)
Net cash provided by capital and related financing activities	382,030
Cash Flows from Investing Activities - Interest received on investments	791,453
Net Increase in Cash and Cash Equivalents	1,779,674
Cash and Cash Equivalents - Beginning of year	49,098,945
Cash and Cash Equivalents - End of year	\$ 50,878,619
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 44,178,084
Restricted investments (Note 3)	6,700,535
Total cash and cash equivalents	\$ 50,878,619
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (2,100,218)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	3,064,641
Changes in assets and liabilities:	
Receivables	(796,274)
Inventory	(183,775)
Due from other funds	34,913
Accounts payable	634,964
Accrued and other liabilities	(48,060)
Net cash provided by operating activities	\$ 606,191

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, developers constructed water and sewer lines with an estimated value of \$17,732,967 and donated them to the Township's Water and Sewer Enterprise Fund.

Township of Macomb

Fiduciary Funds Statement of Net Assets June 30, 2005

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,799,041	\$ 2,022,271
Investments:		
U.S. government securities	25,050	-
Mutual funds	542,109	-
Other assets	48	-
Total assets	2,366,248	<u>\$ 2,022,271</u>
Liabilities		
Due to other governmental units	-	\$ 36,554
Cash bonds and deposits	-	1,985,717
Total liabilities	-	<u>\$ 2,022,271</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 2,366,248</u>	

Township of Macomb

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income - Interest and dividends	\$ 155,593
Contributions:	
Employer	122,991
Employee	<u>11,327</u>
Total contributions	<u>134,318</u>
Total additions	289,911
Deductions	
Benefit payments	30,063
Administrative expenses	<u>6,962</u>
Total deductions	<u>37,025</u>
Net Increase	252,886
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>2,113,362</u>
End of year	<u><u>\$ 2,366,248</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Macomb (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Macomb:

Reporting Entity

The Township of Macomb is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements.

- a. The Fire Retirement System has been blended into the Township's financial statements. The System is governed by a five-member pension board that includes the Macomb Township Treasurer, two individuals chosen by the Township's Board, and two elected fire department members. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Macomb Township Building Authority is governed by a three-member board that is appointed by the Township's Board of Trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Unit - The Economic Development Corporation is reported within the component unit column in the combined financial statements. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of eight individuals, is selected by the Township Board.

Jointly Governed Organization - The Township, in conjunction with Clinton Township, has created the Clinton Macomb District Library (the "Library"). The Library's Board is composed of three members appointed by Clinton Township's Board of Trustees and three members appointed by Macomb Township's Board of Trustees. The Library is funded through property taxes, specifically through a separate property tax millage that is not recorded as revenue by Macomb Township. The Library currently does not receive a subsidy from the Township. The financial statements for the Library can be obtained from the Library's administrative office at 43245 Garfield Rd., Clinton Township, MI. The Township is unaware of any circumstance that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Parks and Recreation Operating Fund - The Parks and Recreation Operating Fund accounts for the activities of the Parks and Recreation Department and all resources used for the purpose of providing this service.

Fire Operating Fund - The Fire Operating Fund accounts for all of the activities of the Township's fire department, except for the purchase of equipment.

Law Enforcement Sheriff Fund - The Law Enforcement Sheriff Fund accounts for the police activities of the Township.

Building Authority Debt Service Fund - The Building Authority Debt Service Fund accounts for all debt payments made related to construction activities for new Township facilities.

Building Authority Fund - The Building Authority Fund (a Capital Projects Fund type) accounts for construction activities for new Township facilities.

Municipal Street Fund - The Municipal Street Fund accounts for reimbursements made to the County for street projects performed by the County on behalf of the Township.

The Township reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following funds:

Pension Trust Fund and Retiree Medical Benefit Fund - The Pension Trust Fund and the Retiree Medical Benefit Fund account for the activities of the fire employees' retirement system, which accumulates resources for pension benefit payments to qualified fire employees and for medical benefits provided to employees during retirement, respectively.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the Township totaled \$2,587,953,405, on which ad valorem taxes levied consisted of 0.7001 mills for the Township's operating purposes, 1.25 mills for fire operating purposes, 0.0468 mills for fire pension, 0.8702 mills for police protection, and 0.8530 mills for parks and recreation. The ad valorem taxes raised \$1,811,826 for general operations, \$3,124,265 for fire operations, \$121,116 for fire pension, \$2,252,037 for police protection, and \$2,207,524 for parks and recreation. The Fire Pension Fund's tax revenue is recorded as an employer contribution to the pension system. The remaining amounts are recorded in their respective funds as tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The bonds of the Enterprise Fund and the governmental funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. Also, the Township has restricted assets for unspent bond proceeds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 years
Water and sewer mains	50-70 years
Water meters	50 years
Buildings and building improvements	40 years
Vehicles	5 years
Office furnishings	7 years
Other tools and equipment	5-7 years

Compensated Absences - The Township allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Construction Code Act - The Township tracks the results of building department operation in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - July 1, 2004		\$ (371,341)
2004-2005 building department activity:		
Permit revenue	\$ 1,355,455	
Expenditures	<u>(2,592,325)</u>	
Net shortfall for the year ended June 30, 2005		<u>(1,236,870)</u>
Cumulative expenditures over revenue - June 30, 2005		<u><u>\$ (1,608,211)</u></u>

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Township has designated 14 banks for the deposit of its funds. The investment policy adopted by the board has authorized investments in accordance with Public Act 196 of 1997. The Township's deposits are in accordance with statutory requirements.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$50,005,789 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

Type of Investment	Fair Value of Township-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	How Held
Negotiable certificates of deposits	\$ 1,279,702	\$ -	Counterparty
U.S. Treasury bonds	-	104,274	Counterparty
Agency bonds	-	25,050	Counterparty
Corporate bonds (pension)	-	262,410	Counterparty
Corporate stocks (pension)	-	373,432	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value of Township-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
Negotiable certificates of deposits	\$ 1,279,702	\$ -	2.0 years
Corporate bonds	-	262,410	3.9 years
U.S. Treasury bonds	-	104,274	4.5 years
Agency bonds	-	25,050	2.8 years

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 2 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank Investment Pool	\$ 8,567,323	AAA	Moody's/Standard & Poor's
Corporate bonds	50,856	AAA	Standard & Poor's
Corporate bonds	50,445	AA	Standard & Poor's
Corporate bonds	108,100	AA-	Standard & Poor's
Corporate bonds	53,009	A+	Standard & Poor's
Agency bonds	25,050	AAA	Standard & Poor's
Negotiable certificates of deposits	248,960	A+	Standard & Poor's
Negotiable certificates of deposits	586,969	AAA	Moody's
Negotiable certificates of deposits	443,773	Not rated	Not rated

Note 3 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 3,018,816	\$ -	\$ 46,468	\$ 2,972,348
Construction in progress	-	2,675,830	-	2,675,830
Subtotal	3,018,816	2,675,830	46,468	5,648,178
Capital assets being depreciated:				
Infrastructure	3,485,232	1,336,755	-	4,821,987
Buildings and improvements	28,850,691	1,315,455	26,610	30,139,536
Vehicles	2,459,314	245,250	174,828	2,529,736
Office furnishings	2,634,506	474,314	33,584	3,075,236
Other tools and equipment	441,866	271,148	45,697	667,317
Subtotal	37,871,609	3,642,922	280,719	41,233,812
Accumulated depreciation:				
Infrastructure	641,318	192,342	-	833,660
Buildings and improvements	2,195,231	737,568	-	2,932,799
Vehicles	1,811,416	157,490	174,828	1,794,078
Office furnishings	1,263,829	336,772	28,481	1,572,120
Other tools and equipment	258,647	78,683	43,058	294,272
Subtotal	6,170,441	1,502,855	246,367	7,426,929
Net capital assets being depreciated	31,701,168	2,140,067	34,352	33,806,883
Net capital assets	\$ 34,719,984	\$ 4,815,897	\$ 80,820	\$ 39,455,061

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets (Continued)

	Balance July 1, 2004 (restated)	Additions	Disposals and Adjustments	Balance June 30, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 91,700	\$ -	\$ -	\$ 91,700
Construction in progress	2,600,586	634,738	4,148	3,231,176
Subtotal	2,692,286	634,738	4,148	3,322,876
Capital assets being depreciated:				
Water and sewer mains	141,735,978	17,735,208	-	159,471,186
Water meters	3,865,486	246,758	-	4,112,244
Buildings and building improvements	2,558,702	-	-	2,558,702
Vehicles	679,382	87,446	12,095	754,733
Furniture and equipment	609,534	154,956	6,357	758,133
Subtotal	149,449,082	18,224,368	18,452	167,654,998
Accumulated depreciation:				
Water and sewer mains	21,594,807	2,805,229		24,400,036
Water meters	563,802	79,777		643,579
Buildings and building improvements	460,014	63,968		523,982
Vehicles	530,369	64,727	12,095	583,001
Furniture and equipment	420,489	69,177	6,143	483,523
Subtotal	23,569,481	3,082,878	18,238	26,634,121
Net capital assets being depreciated	125,879,601	15,141,490	214	141,020,877
Net capital assets	\$ 128,571,887	\$ 15,776,228	\$ 4,362	\$ 144,343,753

Prior Period Adjustment - Net assets in the Water and Sewer Fund have been decreased to correct an adjustment that capitalized costs in prior years that were not directly associated with the intergovernmental cost-sharing agreement.

Water and sewer net assets - July 1, 2004 - As previously reported	\$ 166,937,038
Capital assets - Capitalized cost adjustment	(1,450,000)
Water and sewer net assets - July 1, 2004 - As restated	\$ 165,487,038

Net income of the Water and Sewer Fund for the year ended June 30, 2004 was reduced by approximately \$750,000 for this adjustment.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 481,089
Public safety	283,344
Public works	220,280
Recreation and culture	<u>518,142</u>

Total governmental activities	<u>\$ 1,502,855</u>
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Business-type activities - Water and sewer	<u>\$ 3,082,878</u>
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Construction Commitments - The Township of Macomb has active construction projects at year end as follows:

Projects	Spent to Date	Remaining Commitment
Township Fire Station #3	\$ 1,487,479	\$ 873,568
Township Fire Station #4	1,526,400	873,568

Additionally, the Township has a commitment with the Macomb County Public Works Commissioner as disclosed in Note 10.

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Nonmajor governmental funds	\$ 39,434

Interfund balances represent routine and temporary cash flow assistance until funds are transferred from investment accounts.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	Building Authority Debt Service Fund	\$ 518,750
General Fund	Nonmajor governmental funds	4,000
Parks and Recreation Operating Fund	Building Authority Debt Service Fund	1,251,825
Parks and Recreation Operating Fund	Nonmajor governmental funds	80,000
Nonmajor governmental funds	Building Authority Debt Service Fund	351,000
Nonmajor governmental funds	General Fund	60,206
Total		<u>\$ 2,265,781</u>

Interfund transfers provided funding for operating assistance, capital projects, capital acquisitions, and debt service.

Note 5 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 5 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
2000 Building Authority Bonds:						
Amount of issue - \$ 7,800,000	5.10% -	\$100,000 -				
Maturing through 2010*	5.40%	\$200,000	\$ 900,000	\$ (100,000)	\$ 800,000	\$ 100,000
2001 Building Authority Bonds:						
Amount of issue - \$10,000,000	4.00% -	\$30,000 -				
Maturing through 2027 **	5.25%	\$1,120,000	9,845,000	(1,155,000)	8,690,000	30,000
2002 Building Authority Bonds:						
Amount of issue - \$12,700,000	3.15% -	\$400,000 -				
Maturing through 2022 **	5.00%	\$900,000	11,900,000	(8,500,000)	3,400,000	400,000
2003 Building Authority Bonds:						
Amount of issue - \$2,700,000	2.00% -	\$75,000 -				
Maturing through 2022	4.00%	\$250,000	2,700,000	(75,000)	2,625,000	75,000
2003B Building Authority Bonds:						
Amount of issue - \$6,000,000	2.50% -	\$125,000 -				
Maturing through 2023	4.50%	\$550,000	6,000,000	(125,000)	5,875,000	125,000
2005 Building Authority Refund Bonds:						
Amount of issue - \$9,800,000	3.00% -	\$40,000 -				
Maturing through 2022	4.15%	\$1,070,000	-	9,800,000	9,800,000	115,000
Installment purchase agreement:						
1997 Land Contract Agreement:						
Amount of issue - \$360,000	5.38%	\$42,851 -				
Maturing through 2007		\$45,188	128,260	(40,863)	87,397	43,135
Special assessment bond:						
1995 Limited Tax Bonds:						
Amount of issue - \$345,000	5.15%					
Maturing through 2005		-	37,500	(37,500)	-	-
Total bond obligations			31,510,760	(233,363)	31,277,397	888,135
Other long-term obligations -						
Compensated absences			349,359	67,363	416,722	190,514
Total governmental activities			31,860,119	(166,000)	31,694,119	1,078,649

* The 2000 Building Authority Bond was partially refunded in 2001.

** The 2001 and 2002 Building Authority Bonds were partially refunded in 2005.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 5 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds:						
2002 Capital Improvement Bonds:						
Amount of issue - \$6,000,000	3.00% -	\$200,000 -				
Maturing through 2022	5.00%	\$450,000	\$ 5,700,000	\$ (175,000)	\$ 5,525,000	\$ 200,000
2004 GO Refunding Bonds:						
Amount of issue - \$4,915,000	2.00% -	\$205,000 -				
Maturing through 2019	3.80%	\$760,000	4,915,000	(95,000)	4,820,000	205,000
Special assessment bond:						
1995 Limited Tax Bonds:						
Amount of issue - \$115,000	5.15%					
Maturing through 2005		-	12,500	(12,500)	-	-
Revenue bonds:						
1998 Revenue Bonds:						
Amount of issue - \$5,000,000	4.375% -					
Maturing through 2019*	7.00%	-	200,000	(200,000)	-	-
Unamortized discount of issuance						
1998 Refunding Bonds:						
Amount of issue - \$3,390,000	4.00% -	\$270,000 -				
Maturing through 2012	4.35%	\$395,000	2,605,000	(270,000)	2,335,000	270,000
Total bond obligations			13,432,500	(752,500)	12,680,000	675,000
Other long-term obligations -						
Compensated absences			108,725	95,551	204,276	80,523
Total business-type activities			13,541,225	(656,949)	12,884,276	755,523
Total			\$ 45,401,344	\$ (822,949)	\$ 44,578,395	\$ 1,834,172

* The 1998 Revenue Bond was partially refunded in 2004.

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 888,135	\$ 1,244,327	\$ 2,132,462	\$ 675,000	\$ 484,875	\$ 1,159,875
2007	874,262	1,285,032	2,159,294	665,000	463,358	1,128,358
2008	1,030,000	1,255,750	2,285,750	750,000	439,355	1,189,355
2009	1,110,000	1,217,913	2,327,913	795,000	411,455	1,206,455
2010	1,110,000	1,176,081	2,286,081	785,000	381,644	1,166,644
2011-2015	6,700,000	5,195,533	11,895,533	4,470,000	1,402,825	5,872,825
2016-2020	10,970,000	3,498,103	14,468,103	3,640,000	587,211	4,227,211
2021-2025	7,595,000	1,002,785	8,597,785	900,000	45,000	945,000
2026-2027	1,000,000	77,500	1,077,500	-	-	-
Total	\$ 31,277,397	\$ 15,953,024	\$ 47,230,421	\$ 12,680,000	\$ 4,215,723	\$ 16,895,723

Note 5 - Long-term Debt (Continued)

Defeased Debt

In a prior year, the Township defeased a general obligation bond by placing surplus cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bond are not included in the governmental activities statement of net assets. At June 30, 2005, \$800,000 of bonds outstanding are considered defeased.

In June 2005, the Township issued \$9,800,000 in refunding bonds with interest rates ranging from 3 percent to 4.15 percent; the proceeds were used to advance refund \$1,125,000 of outstanding 2001 Building Authority bonds with interest rates ranging from 4 percent to 5.25 percent and \$8,100,000 of outstanding 2002 Building Authority bonds with interest rates ranging from 3.13 percent to 5 percent. The net proceeds of \$9,719,395 (including premiums of \$99,319 and after payment of \$179,924 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds mentioned above. As a result, bonds are considered to be defeased and the liability for the refunded portion of the bonds has been removed from the Township's financial statements. The advance refunding reduced total debt service payments over the next 16 years by approximately \$365,000, which represents an economic gain of approximately \$250,000.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 6 - Restricted Assets

Specific assets of the Water and Sewer Fund and the Building Authority Capital Projects Fund have been restricted for operations and maintenance, replacement, and debt service as well as unspent bond proceeds. Following is the detail of restricted assets at June 30, 2005:

Water and Sewer Fund:

Restricted assets from bond covenants	
Cash and cash equivalents	\$ 645,406
Less current liabilities payable from restricted assets	<u>(135,000)</u>
Total restricted assets from bond covenants	510,406
 Cash and cash equivalents from unspent bond proceeds	 <u>6,055,129</u>
Total Water and Sewer Fund	6,565,535
 Building Authority Capital Projects Fund - Restricted assets	 <u>3,699,053</u>
Total	<u><u>\$ 10,264,588</u></u>

Net assets have been reserved for restricted assets.

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for specific property, such as vehicles, computers, and employee medical claims. The Township also participates in the Michigan Municipal League risk pool for claims relating to all other property losses, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Township contributes to the Fire Retirement System, which is the administrator of a single-employer public employees' retirement system that covers all full-time fire fighters of the Township. The plan does not issue a separate financial report.

The system provides retirement, death, and disability benefits to plan members and their beneficiaries. At June 30, 2005, membership consisted of two retirees and beneficiaries currently receiving benefits and one terminated employee entitled to benefits but not yet receiving them, and three current active employees.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by a vote of the taxpayers in 1988 and requires a contribution from the employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2005, the Township's annual pension cost is \$122,991, which was equal to the actual and required contributions. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry age actuarial funding method. Significant actuarial assumptions used include: (i) a 7.0 percent investment rate of return, (ii) projected salary increases of 5.0 percent per year, (iii) additional projected salary increases ranging from .2 percent to 3.8 percent per year, attributable to seniority/merit and age, and (iv) no postretirement benefit increases. Assumption (ii) includes an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 17 years.

Township of Macomb

Notes to Financial Statements June 30, 2005

Note 8 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year Trend Information of Annual Pension Cost

	2005	2004	2003
Annual pension costs (APC)	\$ 122,991	\$ 151,206	\$ 77,013
Percentage of annual required contribution actually contributed	100%	137%	97%
Net pension obligation	\$ -	\$ -	\$ -

Reserves

As of June 30, 2005, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contribution	\$ 105,895
Reserve for retired benefit payments	238,358

Note 9 - Other Postemployment Benefits

Health Care for Retirees

The Township provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 13 retirees are eligible for postemployment health benefits. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution recognized by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums come due. During the year, this amounted to approximately \$125,000.

Note 9 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 10 - Commitments and Contingencies

In the prior year, the Township entered into an intergovernmental cost-sharing agreement with two neighboring communities and the Macomb County Public Works Commissioner to fund the construction of an interceptor and wastewater disposal service. Total costs are approximately \$27,000,000. Sixty percent of the cost will be shared directly by the three communities, of which the Township's portion is approximately \$6,400,000. Interest expensed in 2005 related to this liability is \$300,000. The remaining 40 percent will be funded by the Macomb County Water Disposal District. The Township's cost capitalized to date is approximately \$2,000,000.

Required Supplemental Information

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 20,443,144	\$ 20,443,144	\$ 20,443,144	\$ -
Resources (Inflows)				
Property taxes and fees	1,764,000	1,764,000	1,837,465	73,465
Licenses and permits	1,805,000	1,805,000	1,887,038	82,038
Federal grants	50,000	50,000	10,691	(39,309)
State-shared revenues and grants	3,500,000	3,500,000	3,596,226	96,226
Charges for services	320,994	320,994	422,690	101,696
Fines and forfeitures	100,500	100,500	175,493	74,993
Special assessment	400,000	400,000	501,336	101,336
Interest	207,500	207,500	316,966	109,466
Other	125,698	125,698	678,247	552,549
Transfer from other funds	40,000	40,000	60,206	20,206
Total resources (inflows)	8,313,692	8,313,692	9,486,358	1,172,666
Charges to Appropriations (Outflows)				
General government	3,939,459	3,768,424	2,729,676	1,038,748
Public safety	2,054,400	2,161,360	2,254,113	(92,753)
Public works	442,725	675,000	784,609	(109,609)
Parks and recreation	750,000	750,000	221,255	528,745
Employee benefits and insurance	1,374,823	1,543,023	1,294,946	248,077
Operating transfers out	524,000	524,000	522,750	1,250
Total charges to appropriations (outflows)	9,085,407	9,421,807	7,807,349	1,614,458
Fund Balance - End of year	\$ 19,671,429	\$ 19,335,029	\$ 22,122,153	\$ 2,787,124

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2005

Parks and Recreation Operating Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,652,533	\$ 2,652,533	\$ 2,652,533	\$ -
Resources (Inflows)				
Property taxes and fees	2,200,000	2,200,000	2,216,987	16,987
Charges for services	810,000	810,000	1,350,766	540,766
Interest	30,000	30,000	39,251	9,251
Total resources (inflows)	3,040,000	3,040,000	3,607,004	567,004
Charges to Appropriations (Outflows)				
Recreation and culture	1,818,136	1,918,136	1,943,599	(25,463)
Debt service	47,586	47,586	47,019	567
Transfers to other funds	1,331,825	1,331,825	1,331,825	-
Total charges to appropriations (outflows)	3,197,547	3,297,547	3,322,443	(24,896)
Fund Balance - End of year	\$ 2,494,986	\$ 2,394,986	\$ 2,937,094	\$ 542,108

Fire Operating Fund

Fund Balance - Beginning of year	\$ 3,926,691	\$ 3,926,691	\$ 3,926,691	\$ -
Resources (Inflows)				
Property taxes and fees	3,100,000	3,100,000	3,133,516	33,516
Interest	40,000	40,000	68,742	28,742
State grants	-	-	1,851	1,851
Other	1,000	1,000	5,680	4,680
Total resources (inflows)	3,141,000	3,141,000	3,209,789	68,789
Charges to Appropriations (Outflows) -				
Public safety	2,882,377	2,882,377	1,928,928	953,449
Fund Balance - End of year	\$ 4,185,314	\$ 4,185,314	\$ 5,207,552	\$ 1,022,238

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2005

Law Enforcement Sheriff

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 515,630	\$ 515,630	\$ 515,630	\$ -
Resources (Inflows)				
Property taxes and fees	2,200,000	2,200,000	2,261,768	61,768
State-shared revenues and grants	12,000	12,000	15,540	3,540
Interest	7,500	7,500	12,367	4,867
Total resources (inflows)	2,219,500	2,219,500	2,289,675	70,175
Charges to Appropriations (Outflows) -				
Public safety	2,519,700	2,519,700	2,515,671	4,029
Fund Deficit - End of year	<u>\$ 215,430</u>	<u>\$ 215,430</u>	<u>\$ 289,634</u>	<u>\$ 74,204</u>

Township of Macomb

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/00	\$ 606,981	\$ 937,625	\$ 330,644	64.7	\$ 205,887	160.6
06/30/02	630,031	1,158,301	528,270	54.4	288,843	182.9
06/30/04	968,361	1,323,015	354,654	73.2	225,485	157.3

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
06/30/00	\$ 71,422	79
06/30/01	69,853	107
06/30/02	73,346	103
06/30/03	77,013	97
06/30/04	110,309	137
06/30/05	116,029	106

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases*	5.00%-8.80%
*Includes inflation at	5.00%
Cost of living adjustments	None

The information presented above was determined as part of the actuarial valuations at the dates indicated.

Township of Macomb

Note to Required Supplemental Information June 30, 2005

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The supervisor presents the preliminary budget to the Board of Trustees in May and the final budget is legally adopted at the last board meeting in June to commence on the first of July.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township of Macomb incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Public safety	\$ 2,161,360	\$ 2,254,113
Public works	675,000	784,609
Parks and Recreation Operating Fund - Recreation and culture	1,918,136	1,943,599

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Other Supplemental Information

Township of Macomb

	Nonmajor Special Revenue Funds			
	Budget Stabilization	Noxious Weed	Parks and Recreation Revolving	Fire Improvement
Assets				
Cash and investments	<u><u>\$ 109,434</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 331,482</u></u>	<u><u>\$ 2,786,703</u></u>
Liabilities and Fund Balances				
Liabilities - Due to other funds	\$ 39,434	\$ -	\$ -	\$ -
Fund Balances				
Unreserved	70,000	-	331,482	2,786,703
Designated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>70,000</u>	<u>-</u>	<u>331,482</u>	<u>2,786,703</u>
Total liabilities and fund balances	<u><u>\$ 109,434</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 331,482</u></u>	<u><u>\$ 2,786,703</u></u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	
1995 Special Assessment	Public Improvement	Total Nonmajor Governmental Funds
<u>\$ 128,764</u>	<u>\$ 3,027,805</u>	<u>\$ 6,384,188</u>
\$ -	\$ -	\$ 39,434
-	3,027,805	6,215,990
<u>128,764</u>	<u>-</u>	<u>128,764</u>
<u>128,764</u>	<u>3,027,805</u>	<u>6,344,754</u>
<u>\$ 128,764</u>	<u>\$ 3,027,805</u>	<u>\$ 6,384,188</u>

Township of Macomb

	Nonmajor Special Revenue Funds			
	Budget Stabilization	Noxious Weed	Parks and Recreation Revolving	Fire Improvement
Revenue				
Charges for services	\$ -	\$ 8,400	\$ -	\$ -
Interest income	-	26	4,759	43,309
Special assessments	-	-	-	-
Total revenue	-	8,426	4,759	43,309
Expenditures				
Current - General government	-	12,001	-	245,310
Debt service	-	-	-	-
Total expenditures	-	12,001	-	245,310
Excess of Revenue Over (Under)				
Expenditures	-	(3,575)	4,759	(202,001)
Other Financing Sources (Uses)				
Transfers in	-	4,000	80,000	-
Transfers out	-	(3,106)	-	(351,000)
Total other financing sources (uses)	-	894	80,000	(351,000)
Net Change in Fund Balances	-	(2,681)	84,759	(553,001)
Fund Balances - Beginning of year	70,000	2,681	246,723	3,339,704
Fund Balances - End of year	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ 331,482</u>	<u>\$ 2,786,703</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	
1995 Special Assessment	Public Improvement	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 8,400
2,614	56,297	107,005
9,574	-	9,574
12,188	56,297	124,979
300	-	257,611
39,431	-	39,431
39,731	-	297,042
(27,543)	56,297	(172,063)
-	-	84,000
-	(57,100)	(411,206)
-	(57,100)	(327,206)
(27,543)	(803)	(499,269)
156,307	3,028,608	6,844,023
<u>\$ 128,764</u>	<u>\$ 3,027,805</u>	<u>\$ 6,344,754</u>

Township of Macomb

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2005

	Pension and Other Retirement Benefit Funds			Agency Funds		
	Retirement System	Retiree Health Care	Totals	Tax Collections	Bond Escrow	Totals
Assets						
Cash and cash equivalents	\$ 570,655	\$ 1,228,386	\$ 1,799,041	\$ 36,554	\$ 1,985,717	\$ 2,022,271
Investments:						
U.S. government securities	25,050	-	25,050	-	-	-
Mutual funds	542,109	-	542,109	-	-	-
Other assets	48	-	48	-	-	-
Total assets	1,137,862	1,228,386	2,366,248	<u>\$ 36,554</u>	<u>\$ 1,985,717</u>	<u>\$ 2,022,271</u>
Liabilities and Net Assets						
Liabilities						
Due to other governmental units	-	-	-	\$ 36,554	\$ -	\$ 36,554
Cash bonds and deposits	-	-	-	-	1,985,717	1,985,717
Total liabilities	-	-	-	<u>\$ 36,554</u>	<u>\$ 1,985,717</u>	<u>\$ 2,022,271</u>
Net Assets - Held in trust for pension and other employee benefits						
	<u>1,137,862</u>	<u>1,228,386</u>	<u>2,366,248</u>			
Total liabilities and net assets	<u>\$ 1,137,862</u>	<u>\$ 1,228,386</u>	<u>\$ 2,366,248</u>			

Township of Macomb

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2005

	Pension Trust Funds		
	Retirement	Retiree Health	
	System	Care	Totals
Additions			
Investment income - Interest and dividends	\$ 71,397	\$ 84,196	\$ 155,593
Contributions:			
Employer	122,991	-	122,991
Employee	11,327	-	11,327
Total additions	205,715	84,196	289,911
Deductions			
Benefit payments	30,063	-	30,063
Administrative expenses	6,962	-	6,962
Total deductions	37,025	-	37,025
Net Increase	168,690	84,196	252,886
Net Assets Held in Trust for Pension			
Benefits			
Beginning of year	969,172	1,144,190	2,113,362
End of year	<u>\$ 1,137,862</u>	<u>\$ 1,228,386</u>	<u>\$ 2,366,248</u>

October 13, 2005

Board of Trustees
Township of Macomb
54111 Broughton Road
Macomb, MI 48042

Dear Board of Trustees:

We recently completed our audit of the basic financial statements of the governmental activities, business type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the Township of Macomb for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

FUNDING OF POST EMPLOYMENT BENEFIT OBLIGATIONS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government wide financial statements*, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. We recommend that the Township continue its proactive efforts to monitor and fund this future expenditure.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

The statement will not be effective until the Township's 2008-2009 fiscal year. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB statement has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution.

The Township has established the Retiree Health Care Fund to begin to set aside resources to fund these obligations. This fund was established in accordance with The Public Employee Health Act of 1999 (P.A. 149 of 1999) which allows communities to invest assets set aside for post-employment benefit obligations in the same investment vehicles as pension funds (e.g., stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. As a reminder, for funds established in accordance with P.A. 149 of 1999, withdrawals from the fund are restricted solely for the payment of health care benefits and administrative expenses and an actuarial study is required every five years if the fund is not established on an actuarial basis.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD - STATEMENT NUMBER 40

Effective for the Township's 2004/2005 fiscal year, the Governmental Accounting Standards Board required the implementation of Statement Number 40, *Deposit and Investment Risk Disclosures*. This Statement required certain disclosures of the common risks associated with deposits and investments, focusing on investments that have fair values that are highly sensitive to changes in interest rates. It is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. As a result of this pronouncement, the investment footnote in the financial statements has changed dramatically.

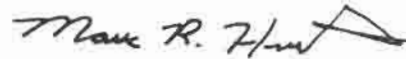
CREDIT CARD POLICY

Credit cards are used by the Township as a matter of convenience to make small purchases that otherwise would be made from a petty cash fund. The use of credit cards can have a positive effect on internal control because it limits the number of transactions that would otherwise be handled in cash. However, because of the relative ease for which credit cards could be used for unauthorized purposes, State law (P.A. 266 of 1995) requires that a policy be adopted by the City Council that governs the use of credit cards by City employees. The policy is required to include provisions for (1) employees responsible for monitoring credit card use and compliance with the City's policies; (2) minimum documentation guidelines for purchases made with credit cards; and (3) the establishment of internal controls to monitor the use of credit cards. While the Township has not adopted a policy governing the use of credit cards prior to year-end, we recommend that such a policy be adopted in order to comply with State law.

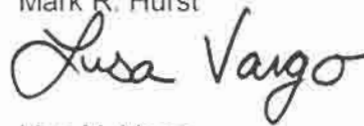
We would like to thank Mrs. Stacy VanReyendam, the accounting office, and all of the Township personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst



Lisa M. Vargo

CREDIT CARD POLICY

I. TOWNSHIP UTILIZATION OF CREDIT CARDS (P.A. 266 of 1995)

That the Township Board of Trustees authorizes the use of a credit card arrangement for the purchase of goods and/or services solely for the official business of the local unit under the guidelines of the Township's written credit card policy as follows:

- (A) That the Township Finance Director/Treasurer is designated as the Township Official responsible for the Township's credit card issuance, accounting, monitoring, retrieval and oversight of compliance with this credit card policy.
- (B) That the Township Supervisor and the Finance Director/Treasurer are to be issued Township credit cards.
- (C) That the Official using the Township's credit cards shall submit appropriate documentation detailing the goods and services purchased, the cost of the goods and services, the date of purchase and the official business it was purchased.
- (D) That holders of Township credit cards are responsible for their protection and custody and shall report to the Finance Director/Treasurer immediately if the credit card is lost or stolen.
- (E) That the Official issued credit cards shall return the credit card upon termination of his/her employment or service to the Township.
- (F) That the internal controls, monitoring, accounting and payment of credit card charges shall be the same as those in place for non-credit card purchases of goods and services.
- (G) That approval of credit card invoices for payment shall be made by the Township Supervisor and/or the Finance Director/Treasurer.
- (H) That the balance due under credit card arrangements shall be paid within not more than sixty (60) days.
- (I) That consistent violations of this policy by credit card holders will result in revocation of the credit card and immediate reimbursement to the Township for any unauthorized purchases.

II. TOWNSHIP ACCEPTANCE OF CREDIT CARD PAYMENTS (P.A. 280 of 1995)

That the Township Board adopts this resolution authorizing the acceptance of payments by financial transaction devices (credit cards, debit cards, electronic funds transfer cards (ATM cards)) and designates the Township Finance Director/Treasurer as the Township Official responsible for determining the types of financial transaction devices that may be accepted and the goods and/or services that can be paid for with financial transaction devices.